

13th July 2017

Initiating Coverage (BUY)

CUPID LTD

CMP

INR 283

Target Price

INR 344

Stock Details

Industry	PERSONAL PRODUCTS
Bloomberg Code	CUPD:IN
BSE Code	530843
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	3,144.1
52wk. Low/High (Adjusted) ((Rs.))	251.25/374.00

Shareholding Pattern June '17

Promoter (%)	44.87
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	55.13
No. of Share Outstanding (mn)	11.11

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	13.46	19.75	13.00	12.00
EV/EBITDA (x)	7.58	11.32	10.94	9.97
P/BV (x)	4.28	8.70	5.96	4.91

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY**Key Financial**

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	444	611	703	809
EBITDA	135	270	271	345
Net Profit	77	159	249	319
EPS (Rs.)*	6.9	14.3	22.4	28.7

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	30.0	42.9	38.6	42.0
EBIT Margin (%)	25.9	39.9	35.6	38.9
Net Pro. Margin (%)	17.1	25.4	35.4	38.8
Debt/Equity (x)	0.09	0.00	0.00	0.00
RoNW (%)	36.0	52.8	55.1	48.3
RoCE (%)	31.8	47.8	60.1	58.7

One Year Price / Volume



We recommend 'BUY' on CUPID LTD for a target of INR 344 - valuing the company at P/E 12x of FY19E Earning.

INVESTMENT RATIONALE:

- High margin FC sales are rising rapidly leading to improved profits.
- Cupid is among the only two companies approved by WHO/UNFPA for worldwide bulk procurement of FC and only company so approved globally for both FC & MC.
- Global condom market is growing at 8% annually.
- One of the few companies in the world to have developed female condom (FC).
- India's rising competitive advantage due to rapidly rising labor costs in competing countries.
- Long term supply contracts.
- Cupid's FC capacity recently doubled, FC has very high profit margin.
- Enough slack in the capacity to grow 2.5 fold.
- Foray into new products.
- Empowerment of women can lead to growth in sales of female condoms.
- Cupid Ltd has attractive fundamentals and a strong order book.
- Potential for growth is high.

VALUATIONS AND VIEW:

Cupid has high potential to outperform over longer tenure on back of increasing focus on domestic marketing of male and female condoms and shift in product mix favoring female condoms. We value the business at 12x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 344 per share.

RISK & CONCERNS

- **Forex and labor cost:** As the key input is a global commodity and input price is largely a pass through for Cupid, its global competitiveness hinges on comparative exchange rate and labour costs vis-à-vis China and Thailand, the two main competing countries.
- **Volatility in quarterly earnings:** Bulk of Cupid's sales is dependent on tender wins and issue of purchase orders by UNFPA under long term supply contract. Timing and quantity of these are not fixed and therefore causes volatility in quarterly revenues. As FC has significantly high profits margins than that in MC, the product mix causes volatility in quarterly margins and profits.
- **Top management continuity:** Currently only one member from the promoter family (CMD Mr Omprakash Garg – OPG) is part of the management. Other promoter family members are engaged in other businesses and professions.

COMPANY BACKGROUND:

CUPID LIMITED was incorporated as a Public Limited Company in 1993 with the Registrar of Companies, Mumbai and listed on BSE (Bombay Stock Exchange) in 1995 and NSE (National Stock Exchange of India Ltd.) in 2016. Cupid Ltd (formerly Cupid Condom Ltd) makes male and female condom at its plant at Nashik, Maharashtra, India.

Cupid was originally promoted by Amit & Shiv Agrawal. They are no longer with the company. Originally promoted as a 100% EOU, it was later converted into a domestic unit due to lack of export orders then. India's Ministry of Health (MoH) has been its biggest customer for many years. The company saw worst of times during 2008-2009. Mr Omprakash Garg, current CMD, then took charge and has been developing export market for the company.

Cupid Limited is engaged in the business of business of dealing, marketing and manufacture of rubber contraceptives and allied prophylactic products. The Company offers Rubber Prophylactics. The Company manufactures male and female condoms. It also offers water based lubricant jellies. The Company's services include contract manufacturing, and research and development. Its contract manufactured range of condoms include Playboy Condoms and Trust Condoms.

Exports carry high margin, other channels at present have low margins. With DPCO's price cap on retailing of condoms in India, the margins have contracted. Mankind Pharma, the biggest branded player (Brand: Manforce) has shut down its plant. Brazil is the largest buyer of condoms from India followed by United States and South Africa. Small quantity of condoms is imported into India from Malaysia, South Korea and Thailand.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Hind. Unilever	1,132	56.7	2,44,941.63	1.46	1,183.0	9.91	8,213.0	6.37	37.74
Godrej Consumer	969	50.7	66,035.7	-	389.9	22.29	2,389.8	12.13	12.46
Dabur India	305	42.0	53,673.5	0.89	333.1	0.49	1,914.7	(4.75)	11.07
Marico	324	51.5	41,785.5	1.08	170.9	25.50	1,322.2	2.45	17.97
Colgate-Palm.	1,077	50.7	29,295.6	0.93	142.6	(0.48)	1,037.5	2.16	23.00
P & G Hygiene	8,018	56.1	26,027.5	0.45	99.6	2.65	573.9	5.53	13.95
Cupid	283	10.1	3,144.1	1.05	4.9	6.49	18.5	1.43	8.70

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	182.47	162.42	215.33	276.69	178.80	-2.01%	-35.38%
Other Income	--	--	5.72	7.07	6.17		
Total Income	182.47	162.42	221.05	283.76	184.97	1.37%	-34.81%
Expenditure	-94.02	-97.30	-130.48	-175.08	-103.52		
As a % of Sales	51.53%	59.91%	60.60%	63.28%	57.90%		
Interest	-0.81	-0.24	-0.36	-0.22	--	#VALUE!	#VALUE!
PBDT	87.64	64.89	90.21	108.46	75.97		
As a % of Sales	48.03%	39.95%	41.89%	39.20%	42.49%		
Depreciation	-4.98	-4.92	-5.39	-5.18	--		
PBT	82.66	59.97	84.82	103.28	75.97	-8.09%	-26.44%
As a % of Sales	45.30%	36.92%	39.39%	37.33%	42.49%		
Tax	-36.51	-21.63	-31.18	-39.07	-26.76	-26.71%	-31.51%
Net Profit	46.15	38.34	53.64	64.21	49.2	6.61%	-23.38%
As a % of Sales	25.29%	23.61%	24.91%	23.21%	27.52%		
Equity	111.15	111.15	111.15	111.15	111.15	0.00%	0.00%
EPS (Rs)	4.15	3.45	4.83	5.78	--	#VALUE!	#VALUE!
CEPS (Rs)	4.6	3.89	5.31	6.24	4.43		
OPM %	48.47	40.09	42.06	39.28	42.49		
NPM %	25.29	23.61	24.91	23.21	27.52		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	284	195	444	611	703	809	954
Other Operating Income	2	1	7	17	-	14	19
Expenditure	253	174	316	358	432	477	565
EBITDA	33	22	135	270	271	345	409
Depreciation	14	15	18	19	21	25	31
EBIT	19	7	117	250	250	320	378
Interest Expenses	5	5	3	2	3	3	4
PBT	14	2	114	248	247	317	374
Tax	5	1	37	89	(2)	(2)	(2)
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	9	2	77	159	249	319	376
Monority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	9	2	77	159	249	319	376

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	111	111	111	111	111	111	111
Reserves & surplus	74	75	131	250	431	668	946
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	186	186	242	361	543	779	1,057
Minority Interest	-	-	-	-	-	-	-
Loan Funds	-	-	22	-	2	0	(2)
Net deferred tax liability	13	14	22	20	20	20	20
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	199	201	286	383	565	800	1,076
Net block	172	163	156	156	184	259	328
Investment, Loan & Adv.	6	3	4	3	3	6	6
Total Current Assets	69	99	189	347	565	746	982
Current Liabilities & Provisions	48	65	64	125	188	212	241
Net Current Assets	21	34	125	222	377	534	741
Total Assets	199	201	286	383	565	800	1,076

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	129	269	294	387
Cash Flow from Investments	(14)	(50)	(103)	(100)
Cash Flow from Financing	(55)	(42)	(78)	(95)
Net Changes in Cash	60	176	112	192
Opening Cash	32	92	268	381
Closing Cash Balance	92	268	381	572

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